

DEPT. OF INSURANCE  
BY [Signature]

Docket No. 02A-109-INS

# ORDER RELEASING SECURITY DEPOSIT

Arizona Revised Statutes (“A.R.S.”) §20-588(A)(3) provides that deposited funds shall be released and returned to the Petitioner upon proper order of a court of competent jurisdiction to the liquidator of an insurer, upon application to and written order of the Director of Insurance.

1. The Connecticut Surety Company (“Petitioner”), a Connecticut domiciled insurance company, received its certificate of authority to transact surety insurance in Arizona on December 6, 1996.

2. The Arizona State Treasurer presently holds approximately one million dollars (\$1,000,000) in the form of cash and United States Treasury securities for the protection of Petitioner's Arizona policyholders and claimants ("Arizona Security Deposit") in accordance with a Security Deposit, Assignment, and Trust Agreement for Sole Benefit of Arizona Policyholders and Claimants dated December 1996 ("Exhibit A").

3. On May 17, 2002, an Order of Liquidation was entered against the Petitioner by the Connecticut Superior Court in the Judicial District of Hartford (Docket No. CV-02-814173-S) (“Liquidation Court”), and pursuant to such Order, the Insurance Commissioner of the State of Connecticut was appointed the Liquidator (the “Liquidator”).

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4. The Liquidator and ADOI have entered into a Deposit Release and Administration Agreement dated as of November 1, 2002 (the “Deposit Release Agreement”) for the release and administration of the Petitioner’s Arizona Security Deposit (“Exhibit B”), pursuant to which the ADOI agrees to release the Arizona Security Deposit to the Liquidator, with 25% of the deposit being immediately released to the Liquidator for addition to the general assets of the estate, and the remaining 75% immediately placed by the Liquidator in a trust account for the exclusive payment of Petitioner’s Arizona claims.

## CONCLUSIONS OF LAW

1. The Director has no personal liability for the release of such deposit so made by him in good faith as provided in A.R.S. §20-588(B).

2. The Liquidator is entitled to the release of its Arizona Security Deposit pursuant to A.R.S. § 20-588 to be administered in accordance with the terms of the Deposit Release Agreement.

## ORDER

THEREFORE, IT IS ORDERED that Petitioner's Arizona Security Deposit in the approximate amount of one million dollars (\$1,000,000) shall be released to the Liquidator with 25% added to the general assets of the estate, and 75% being placed into a trust account for the exclusive payment of Petitioner's Arizona claims in accordance with the terms of the Deposit Release Agreement, upon receipt by the Department of a fully executed Form E126 Notice of Trust Deposit Release.

DATED this 10<sup>th</sup> day of December 2002.

Calley

CHARLES R. COHEN  
Director of Insurance

1 COPY of the foregoing mailed/delivered  
2 this 10th day of Dec., 2002 to:

3 Harold Horwich, Esq.  
4 Bingham McCutchen  
5 One State Street  
6 Hartford, CT 06103-3178

7 Jon E. Arsenault, Esq.  
8 Connecticut Insurance Department  
9 P.O. Box 816  
10 153 Market Street, 6<sup>th</sup> Floor  
11 Hartford, CT 06142-0816

12 Michael E. Surguine  
13 Executive Director  
14 Arizona Property and Casualty Insurance Guaranty Fund  
15 1110 W. Washington, Suite 270  
16 Phoenix, Arizona 85007

17 Sara Begley, Deputy Director  
18 Gerrie Marks, Executive Assistant for Regulatory Affairs  
19 Steve Ferguson, Assistant Director  
20 Deloris Williamson, Assistant Director  
21 Mary Butterfield, Assistant Director  
22 Kurt Regner, Chief Financial Analyst  
23 Leslie Hess, Deputy Receiver  
24 Arizona Department of Insurance  
2910 North 44<sup>th</sup> Street, Second Floor  
Phoenix, AZ 85018

Curvey Walters Burton



AGREEMENT FOR RELEASE AND ADMINISTRATION  
OF SECURITY DEPOSIT

This Agreement is entered into this 1st day of November, 2002, between the Charles R. Cohen, Director of Insurance for the State of Arizona ("Director"), and Susan F. Cogswell, the Insurance Commissioner of the State of Connecticut, as Liquidator of The Connecticut Surety Company ("Liquidator").

Recitals

A. On May 17, 2002, The Connecticut Surety Company ("CSC") was placed in liquidation by order of the Connecticut Superior Court, Judicial District of Hartford in Docket No. CV-02-814173-S ("Liquidation Court").

B. The Director holds \$1,000,000.00, plus accrued interest, as a security deposit ("Security Deposit") of the estate of CSC.

C. The Security Deposit was deposited with the State of Arizona pursuant to a Security Deposit, Assignment, and Trust Agreement for Sole Benefit of Arizona Policyholders and Claimants (the "Security Deposit Agreement") specifically for the protection of residents of Arizona who have claims against CSC ("Arizona Claimants" (Exhibit A)).

D. All persons with claims against CSC will benefit to a greater extent because interstate cooperation and protection embodied in this Agreement in conformance with the statutes of both Arizona and Connecticut regarding the liquidation of an interstate insurer.

Terms and Conditions

NOW THEREFORE, the Director and Liquidator agree as follows:

1. Upon execution of this Agreement, the Director will issue an administrative order pursuant to A.R.S. §20-588(A)(3) authorizing the release of the Security Deposit to the Liquidator.

2. After receipt, and redemption if necessary, the Liquidator will place seventy five percent (75%) of the proceeds of the Security Deposit into a trust account for the benefit of the Arizona Claimants ("Arizona Deposit"). The remaining twenty five percent (25%) of the Security Deposit (the "Released Deposit") will be immediately released to the Liquidator to become part of the general assets of the estate of CSC.

3. The Arizona Deposit will be used by the Liquidator for the exclusive benefit of Arizona Claimants by paying the claims of Arizona Claimants and the allocated and reasonable unallocated loss adjustment expenses associated with the

INSURANCE DEPARTMENT  
STATE OF CONNECTICUT  
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Liquidator's adjudication of the claims of Arizona Claimants ("Loss Adjustment Expenses"). However, if any portion of the Arizona Deposit remains unexpended after all claims of Arizona Claimants (filed on or before the designated bar date as set by the Liquidation Court) have been paid in accordance with the order of the Liquidation Court and the Liquidator has been reimbursed for the Loss Adjustment Expenses, the unexpended portion of the Arizona Deposit may be transferred by the Liquidator from the Trust Account to the general assets of the estate of CSC after thirty days notice to the Director.

4. If the Arizona Deposit is insufficient to pay all of the claims of Arizona Claimants and the Loss Adjustment Expenses, then the Liquidator shall use an additional amount of funds equal to the Released Deposit for the payment of Arizona Claimants and Loss Adjustment Expenses. If the Arizona Deposit together with an amount equal to the Released Deposit is not enough to pay Arizona Claimants and Loss Adjustment Expense, those claimants shall be entitled to share pro rata the Arizona Deposit and the amount of funds equal to the Released Deposit (after first deducting the Loss Adjustment Expenses), and after such payments, those claimants shall be entitled to distribution of the general assets of the estate of CSC as provided in Conn. Gen. Stat. 38a-937.

5. The Liquidator shall administer, adjust and adjudicate all claims of Arizona Claimants pursuant to the procedures set forth in the Liquidation Order entered by the Liquidation Court.

6. The Liquidator, in her official capacity as CSC Liquidator only, and not individually and not on behalf of the State of Connecticut, agrees to indemnify and hold harmless the Director from such amounts that the Director becomes legally liable to pay to any Arizona Claimant in respect of claims against CSC for whose benefit the Security Deposit was deposited, provided that such indemnity shall not exceed the amount of the Security Deposit less any amounts paid to the Arizona Claimants or expended for Loss Adjustment Expenses.

7. Commencing with the quarter ending December 31, 2002, the Liquidator shall report quarterly to the Director within 30 days of the end of the quarter the following information:

- a. The balance of the Arizona Deposit at the beginning of the quarter.
- b. The amount of claims and Loss Adjustment Expenses paid from the Arizona Deposit during the quarter.
- c. The interest received on the Arizona Deposit during the quarter.
- d. The balance of the Arizona Deposit at the end of the quarter.
- e. A listing of all unpaid claims of Arizona Claimants at the end of the quarter.



8. All Notices hereunder shall be directed as follows:

To the Director:

Leslie R. Hess  
Deputy Receiver  
Arizona Department of Insurance  
2910 N. 44<sup>th</sup> Street, 2<sup>nd</sup> Floor  
Phoenix, Arizona 85018  
Phone: 602-912-8458  
Fax: 602-912-8459

To the Liquidator:

Connecticut Insurance Department  
P.O. Box 816  
153 Market Street, 6<sup>th</sup> Floor  
Hartford, CT 06142-0816  
Attn: Jon E. Arsenault, Esq.  
Phone: 860-297-3940  
Fax: 860-566-7410

9. This Agreement shall be deemed to be fully executed when each of the parties has executed at least one counterpart.

Susan F. Cogswell, Commissioner of  
Insurance of the State of  
Connecticut, as Liquidator of The  
Connecticut Surety Company, in  
Liquidation

By: Susan F. Cogswell  
Susan F. Cogswell

Charles R. Cohen  
Arizona Director of Insurance

By: Leslie R. Hess  
Leslie R. Hess  
Deputy Receiver

## EXHIBIT A

# SECURITY DEPOSIT, ASSIGNMENT, AND TRUST AGREEMENT FOR SOLE BENEFIT OF ARIZONA POLICYHOLDERS AND CLAIMANTS

This agreement is made, by and between The Connecticut Surety Company, a Connecticut corporation, which is authorized to transact insurance business within the State of Arizona with its principal place of business at 195 Asylum Street, City Place II, Hartford, CT 06103, hereinafter referred to as "Insurer", the Arizona Department of Insurance, hereinafter "Department" and the Arizona State Treasurer.

Insurer has been, is or will be engaged in the transaction of insurance within the State of Arizona and has issued and/or will issue insurance policies to Arizona residents. In order to provide additional security to all Arizona residents that have or will purchase insurance from Insurer, Insurer hereby deposits and assigns to the Arizona State Treasurer, as Trustee, the following described property for the benefit of all Arizona policyholders of and claimants against policyholders of Insurer, as follows:

The following securities or like kind, held by the Arizona State Treasurer:

Par value	Description	Rate%	Maturity date
\$ 500,000	U.S. Treasury Note	6.250%	2/15/03
500,000	U.S. Treasury Note	6.375	3/15/02

The assets of Insurer which are the subject of this agreement are intended to be security for Arizona residents who are policyholders of and claimants against policyholders of Insurer only and it is the intent of the parties that a claim of an Arizona resident be a "secured claim" within the meaning of A.R.S. §20-611(11) and that the deposited and assigned assets are being placed in trust with the Arizona State Treasurer to act as a security deposit for the sole benefit of Arizona policyholders of and claimants against policyholders of Insurer. Insurer consents and agrees that in the event of the insolvency of Insurer the above deposited, assigned and trusted assets shall be considered "security" within the meaning of A.R.S. §20-629(E) and that the Arizona policyholders of and claimants against policyholders of Insurer shall be deemed "secured" claimants within the meaning of A.R.S. §20-629(E). The parties specifically agree that no part of the assets which are subject to this agreement shall be deemed to be a "Statutory" deposit within the meaning of A.R.S. §20-213. Insurer expressly recognizes that its "Statutory" Deposit requirement under A.R.S. §20-213 must be otherwise satisfied.



SECURITY DEPOSIT, ASSIGNMENT, AND TRUST AGREEMENT  
RE: THE CONNECTICUT SURETY COMPANY

Insurer warrants that it has free and clear title to the assets which are the subject of this agreement, and that the assets are not subject to or restricted by any encumbrance, lien, pledge, assignment, trust or any other kind of claim or interest.

This assignment and expressed trust deposit for the benefit of Arizona policyholders of and claimants against policyholders of Insurer is irrevocable and shall be maintained until such time as the Company has attained two successive years of profitable and stable operations. Insurer agrees to adjust this deposit during the two years seasoning period based upon actual Arizona operations compared to the financial projections provided with the application material. Insurer shall have the right to withdraw the deposit upon satisfactorily fulfilling the above condition.

The Connecticut Surety Company  
Insurer

By: [Signature]  
Its ~~Shareholder~~/Director/Officer

12.23.96  
dated

Arizona Department of Insurance

By: [Signature]  
Assistant Director/Chief Examiner

12/27/1996  
dated

Office of the Arizona State Treasurer

By: [Signature]

1/2/97  
dated

RECEIVED  
STATE TREASURER  
JAN 2 10 05 AM '97

CC: charter file  
trust deposit file

FILE: SUCORNA/CDSP/COOK/TRUST